



**Review of Dominion Energy South Carolina,
Incorporated's 2020 Annual Update on
Demand Side Management Programs and
Petition for an Update to Rate Rider
Docket No. 2020-41-E**

South Carolina
Office of Regulatory Staff

April 1, 2020

Executive Summary

On January 31, 2020, Dominion Energy South Carolina, Inc. (“DESC” or the “Company”), formerly known as South Carolina Electric & Gas Company, filed its Annual Update on Demand Side Management (“DSM”) Programs and Petition to Update Rate Rider. The Company is requesting recovery of \$40,646,200 in this filing.

DESC’s amortized program costs, with carrying costs, constitutes \$24,021,909 or 59% of the total requested amount. Net Lost Revenues (“NLR”) is \$15,326,879 or 38% of the total requested amount, and \$1,297,412, or 3% of the total requested amount, is the amortized portion of the Company’s Shared Savings Incentive (“SSI”).

The Company’s filing comports for the most part with the Commission’s Order No. 2019-880, filed on December 20, 2019. However, the Company has not yet filed the “Avoided Cost Report” required by Order No. 2019-880.¹ In all other respects, ORS finds the updated DSM Rate Rider to be developed in accordance with the terms and conditions set forth in the Commission Order Nos. 2010-472, 2014-826 and 2019-880.

Due to the COVID-19 pandemic, the Company has temporarily suspended (as of March 16, 2020) two (2) programs that involve on-site customer visits – the Home Energy Check-Up Program and the Neighborhood Energy Efficiency Program. The impacts of these suspensions will be reflected through true-ups in the Company’s 2021 filing.

Table 1 below compares the existing DSM rates to those currently requested by DESC:

Table 1: Previous and Requested DSM Rider

DSM Rider Class	Approved 2019 Rate (¢/kWh)	Requested 2020 Rate (¢/kWh)
Residential	0.184	0.220
Small General Service	0.274	0.402
Medium General Service	0.176	0.261
Large General Service	0.093	0.116

¹ Order No. 2019-880 requires DESC to file an “Avoided Cost Report” with the Commission setting out the resulting avoided costs results and the changes, if any, to its DSM programs resulting from their reevaluation within 120 days of a final order being issued in Docket No. 2019-184-E (page 44). A final order was recently issued on March 24, 2020 (Order No. 2020-244).

The Company's requested rate change would increase the bill of an average residential customer using 1,000 kilowatt hours ("kWh") per month by approximately \$0.36.² According to the Company, the primary factor driving the increases in DSM Rate Riders is the change in amortization of program costs from five (5) years to three (3) years, which was approved in Commission Order No. 2019-880.

Introduction

South Carolina Electric & Gas Company filed a Request for Approval of its DSM³ Plan including a DSM Rate Rider and Portfolio of Energy Efficiency Programs with the Public Service Commission of South Carolina ("Commission") in Docket No. 2009-261-E on June 30, 2009. Nine (9) DSM programs were proposed by the Company – seven (7) targeting residential customers and two (2) for commercial and industrial customers. Two (2) settlement agreements – the General Settlement Agreement and the Opt-Out Settlement Agreement – were approved by the Commission in Order No. 2010-472 dated July 15, 2010.

On May 31, 2013, the Company filed an Application for Approval to Continue Demand Side Management Programs (Docket No. 2013-208-E) with no change to the DSM Rate Rider and with a revised portfolio of DSM programs. A Settlement Agreement was reached by the Company, the South Carolina Office of Regulatory Staff ("ORS"), the South Carolina Energy Users Committee and Wal-Mart Stores, East and Sam's East, Inc. On November 26, 2013, the Commission approved the Settlement Agreement and ordered the following:

- the Company's revised portfolio of DSM programs should be approved as filed;
- the Company should retain the authority and flexibility to modify, amend, terminate and/or add any measure or program without seeking prior Commission approval;
- the Company should continue to file annual reviews of the programs and program costs with the Commission and the ORS;

² The actual change in the DSM factor equates to a \$0.36 per month increase in the 1,000 kWh residential electric bill, but the application of the Tax Rider approved in the Commission Order No. 2018-804 reduces the impact to a \$0.35 increase.

³ DESC refers to the programs as DSM programs, and ORS does the same, even though the programs are better described as energy efficiency programs.

- the Company should review additional programs designed specifically for low-income participants;
- the NLR recovery should be limited to a rolling three (3) year period; and
- the amortization period for the recovery of Program Costs and SSI should be five (5) years.

The Settlement Agreement also provided the option for certain non-residential customers having annual energy consumption of 1,000,000 kWh or more to opt-out of the DSM programs and required that non-residential customers who accepted a DSM rebate from the Company remain in the programs for five (5) years from the date of acceptance. Finally, the Settlement Agreement provided that any party could request a review and submit proposed changes to both the mechanism and the portfolio of programs after six (6) years. The Settlement Agreement was approved by the Commission in Order No. 2013-826.

On January 31, 2014, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2014-44-E. After reviewing the Company's filing in this case, ORS made several recommendations that were subsequently approved by the Commission. Those recommendations are as follows:

- the elimination of the Residential Energy Information Display Program and Home Performance with ENERGY STAR Program due to the programs' lack of cost-effectiveness;
- the reduction in the recovery of projected NLR by 25% to mitigate costs to ratepayers stemming from participation estimates; and
- the modifications to the Residential ENERGY STAR Lighting Program to ensure that incentives are available to DESC customers only, and to reflect changes occurring due to federal standards that are removing certain bulbs from the marketplace.

On January 30, 2015, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2015-45-E.

Concerning this case, ORS made the following recommendations that were subsequently approved by the Commission in Order No. 2015-307:

- the limitation of collection of NLR for the Home Energy Report Program to the time the customer is enrolled in the program;
- the elimination of the rebate offered for air conditioners with an energy efficiency rating of 14 SEER or below under the Heating & Cooling and Water Heating Equipment Program;
- encouragement for the Company to explore cost-effective methods to increase its energy efficiency efforts and to use the Advisory Group as a resource for program growth and design and to reduce administrative costs associated with the DSM programs; and
- an investigation by the Company to address the causes of the large number of opt-outs from the DSM programs by large commercial and industrial customers.

On January 29, 2016, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2016-40-E. ORS recommended that the Company update the avoided costs used to compute the benefits and overall cost effectiveness of the programs. ORS and the Company will continue to monitor cost effectiveness of programs to determine if future modifications are necessary.

On January 31, 2017, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2017-35-E. ORS recommended that the Commission approve the updated Rate Rider as requested.

On January 30, 2018, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2018-42-E. ORS recommended that the Commission approve the updated Rate Rider as requested.

On January 31, 2019, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2019-57-E. ORS recommended that the Commission approve the updated Rate Rider as requested.

On June 28, 2019, the Company filed its Request for Approval of an Expanded Portfolio of DSM Programs and a Modified DSM Rate Rider in Docket No. 2019-239-E. A public hearing was held on November 13, 2019, involving the Company, ORS, Walmart, Inc., the South Carolina State Conference of the NAACP, the South Carolina Coastal Conservation League and the Southern Alliance for Clean Energy. The Commission approved, via Order No. 2019-880, the Company's expanded portfolio of DSM programs and approved (with modifications) the Company's requested changes to the DSM Rate Rider. The major changes to the Company's DSM programs and cost recovery mechanism resulting from this case are as follows:

- Two (2) new programs were added to the Company's DSM portfolio – the Residential Multifamily Program and the Municipal LED Lighting Program;
- The Company's SSI was increased from 6% of net benefits to 9.9% of net benefits;
- The Company will amortize program costs over three (3) years rather than five (5) years (SSI continues to be amortized over five years); and
- The Company is to reevaluate the proposed DSM portfolio under the avoided costs and avoided cost methodology approved in Docket No. 2019-184-E.

On January 31, 2020, the Company filed its Annual Update on Demand Side Management Programs and Petition to Update Rate Rider with the Commission in Docket No. 2020-41-E. The Company is requesting the updated DSM Rate Rider be effective for the twelve (12)-month period beginning with bills rendered on and after the first billing cycle for May 2020 and ending with the last billing cycle for April 2021 ("Recovery Period"). ORS, in accordance with the terms of the approved Settlement Agreements, conducted a review of DESC's Filing. ORS's review includes an evaluation of the three (3) major cost components associated with the Company's DSM programs—Program Costs, NLR, and SSI.

Table 2 below illustrates each Program Year ("PY") since the inception of the programs:

Table 2: Program Year Timeline

Program Year	Beginning Date	Ending Date	
1	October 1, 2010	November 30, 2011	
2	December 1, 2011	November 30, 2012	
3	December 1, 2012	November 30, 2013	
4	December 1, 2013	November 30, 2014	
5	December 1, 2014	November 30, 2015	
6	December 1, 2015	November 30, 2016	
7	December 1, 2016	November 30, 2017	
8	December 1, 2017	November 30, 2018	
9	December 1, 2018	November 30, 2019	"Review Period"
10	December 1, 2019	November 30, 2020	"Forecast Period"

The Company's actual costs were audited for the period December 1, 2018 through November 30, 2019 ("Review Period" or "PY9"). ORS also reviewed the Company's cost projections for the period December 1, 2019 through November 30, 2020 ("Forecast Period" or "PY10").

Table 3 below shows the actual DSM Program Energy Savings, Program Expenses and Administrative Costs for PY1 through PY9.

Table 3: DSM Program Energy Savings, Program Expenses, and Administrative Costs

Program Year	MWh Savings	Program Expenses	Administrative Costs
PY1	57,332	\$11,446,748	\$597,187
PY2	110,623	\$16,063,043	\$1,071,356
PY3	105,378	\$19,536,326	\$1,080,699
PY4	96,392	\$16,758,638	\$708,051
PY5	81,293	\$12,680,376	\$551,316
PY6	53,613	\$10,265,667	\$623,653
PY7	55,046	\$12,741,575	\$712,343
PY8	55,843	\$13,585,912	\$1,207,985
PY9	71,887 ⁴	\$15,254,547	\$1,378,548

⁴ Pre EM&V actual.

Chart 1 below illustrates the fluctuation of the DSM Program energy savings and the associated Program Expenses for PY1 through PY9.

Chart 1: DSM Program Savings and Program Expense for PY1 through PY9

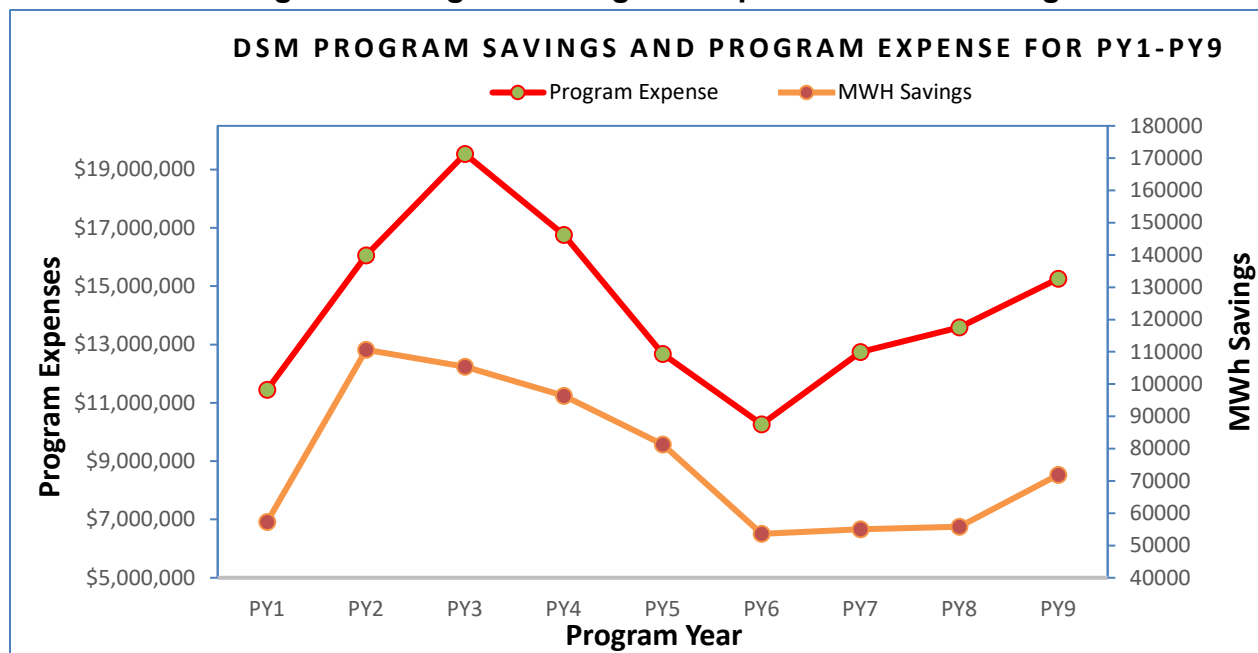
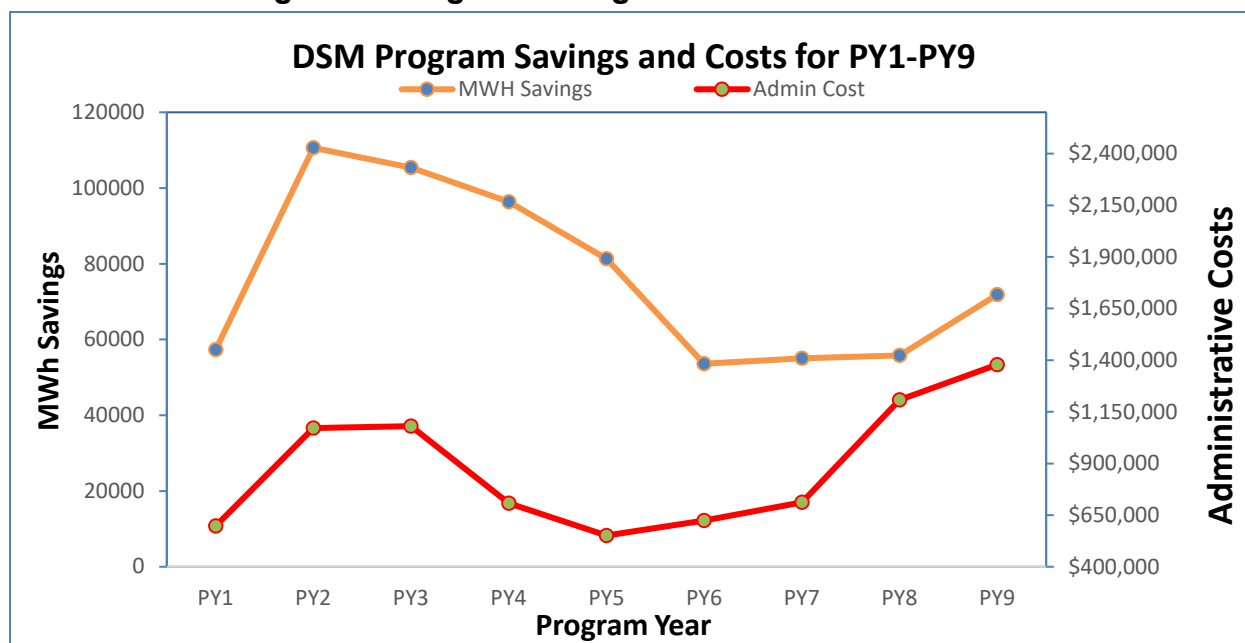


Chart 2 below illustrates the fluctuation of the DSM Program energy Savings and the associated Administrative Costs for PY1-PY9.

Chart 2: DSM Program Savings and Program Administrative Costs for PY1-PY9



DSM Programs

The Company currently offers ten (10) DSM programs. The programs and the launch dates of each program are shown in Table 4 below:

Table 4: DSM Programs and Launch Dates

<u>Residential Programs</u>		
i.	Home Energy Check-Up	10/01/2010
ii.	ENERGY STAR Lighting	02/14/2011
iii.	Heating & Cooling	03/01/2011
iv.	Home Energy Reports	04/06/2011
v.	Neighborhood Energy Efficiency Program (NEEP)	07/30/2013
vi.	Appliance Recycling	10/30/2014
vii.	Multifamily	07/1/2020
<u>Commercial and Industrial Programs</u>		
viii.	EnergyWise for Your Business	10/01/2010
ix.	Small Business Energy Solutions	11/24/2014
x.	Municipal LED Lighting	04/01/2020

During PY9, the Company made the following major changes to its program offerings:

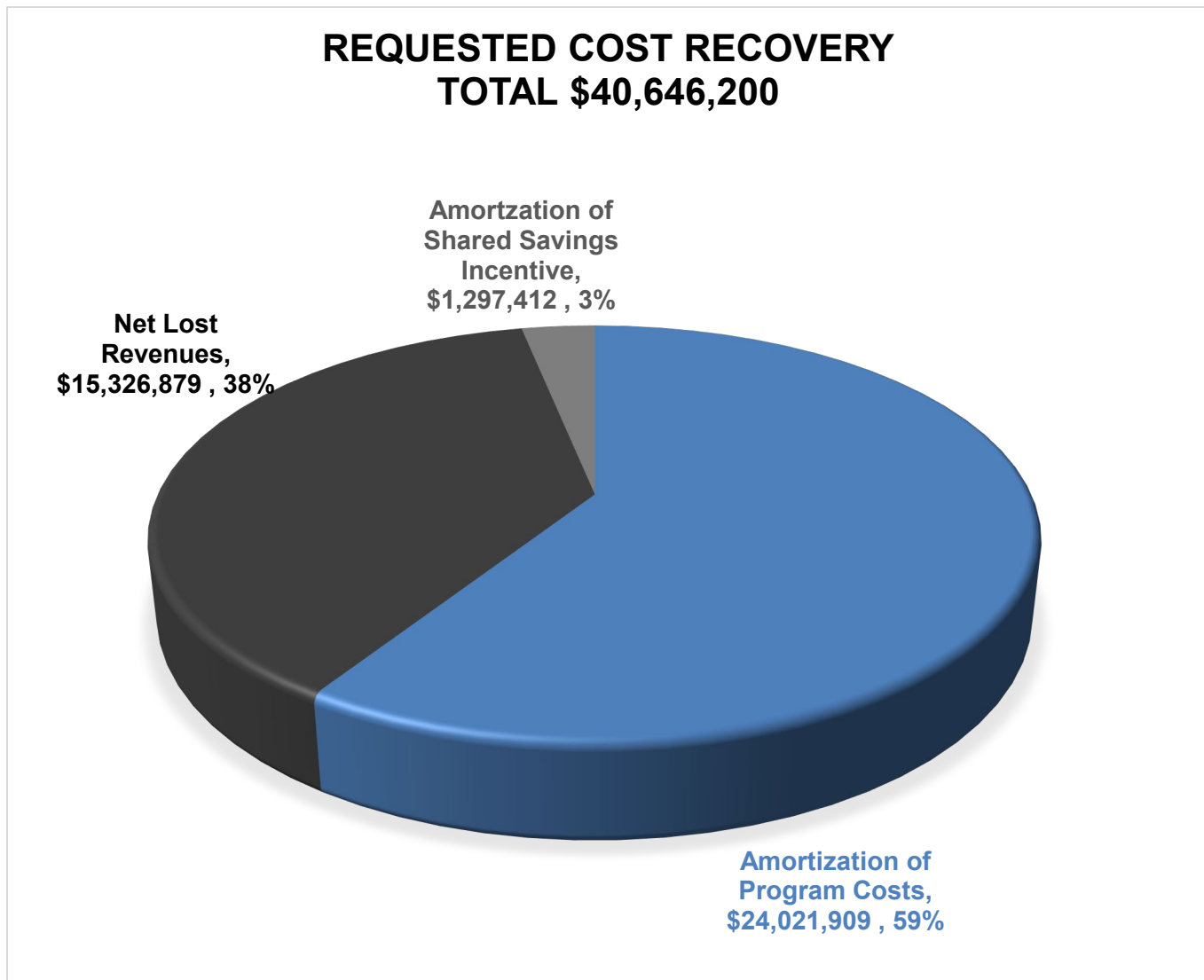
- The Home Energy Check-Up Program began the installation of kitchen faucet aerators where applicable and worked to reach additional low to moderate customers and elderly customers;
- Neighborhoods in Walterboro, Holly Hill and Columbia along with multifamily homes in Charleston, Beaufort and Ridgeland were added to the NEEP Program;
- The Appliance Recycling Program added two (2) new prize pack promotions to incentivize customers; and
- The ENERGY STAR Lighting Program distributed nearly 100,000 LED bulbs through direct mail and social media promotions.

DSM Cost Evaluation

The total cost the Company is seeking to recover in this filing is \$40,646,200. For the programs currently in place, the Company estimates that average lifetime costs will be 3.05 ¢/kWh saved.

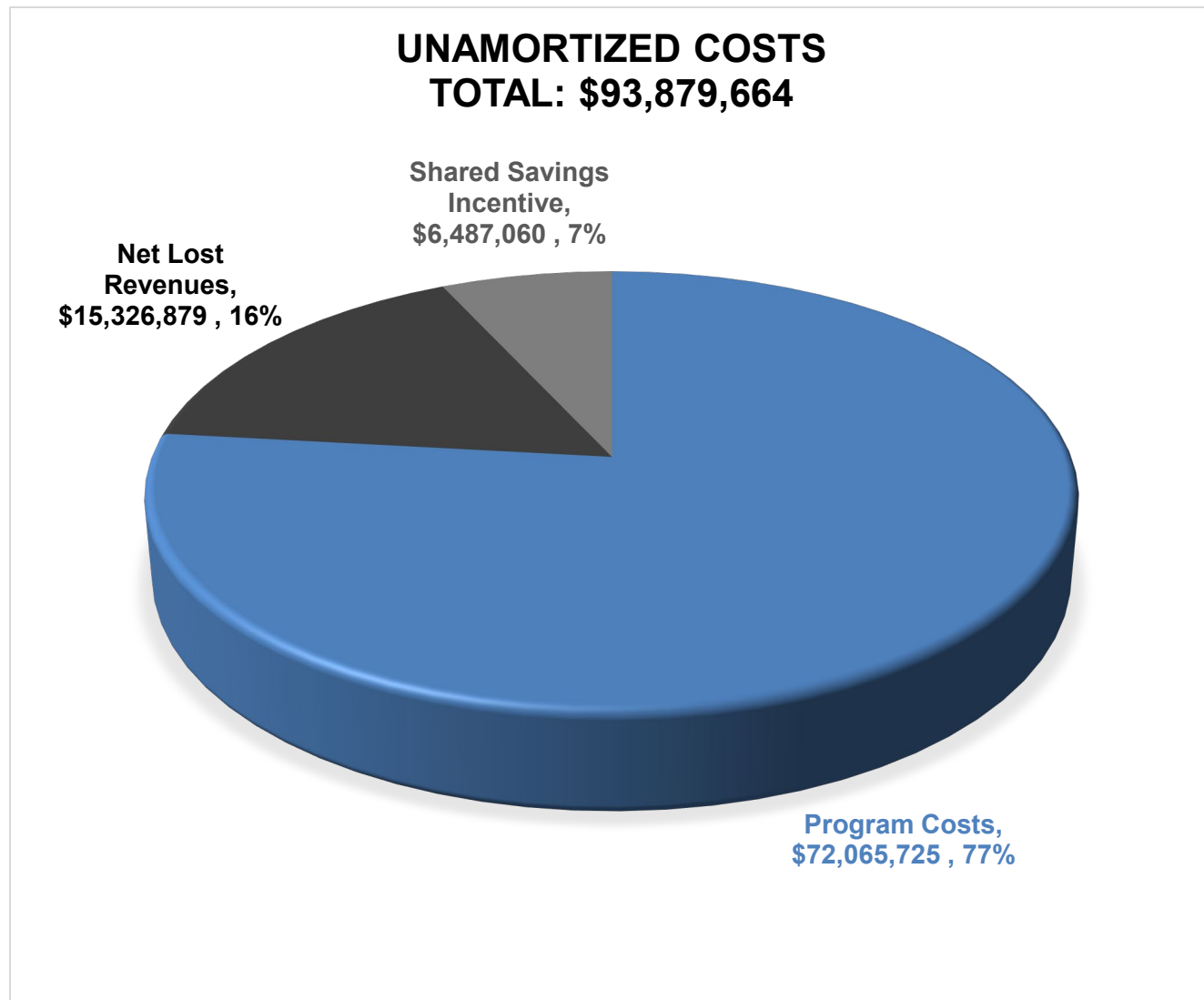
DESC's amortized Program Costs, with carrying costs, results in a request of \$24,021,909, or 59% of the total requested amount. The Company is requesting \$15,326,879 for NLR, or 38% of the total requested amount. DESC does not amortize its NLR and recoups the total amount during the Recovery Period. Finally, DESC is requesting \$1,297,412, or 3% of the total requested amount as SSI to be amortized over five (5) years without carrying costs.

Chart 3: Requested Cost Recovery



The total unamortized cost for DESC's programs to date is \$93,879,664. This amount includes the Program Costs balance of \$72,065,725 (77% of the total unamortized cost); NLR of \$15,326,879 (16% of the total unamortized cost); and SSI balance of \$6,487,060 (7% of the total unamortized cost). The following chart illustrates the proportions of the unamortized costs attributable to the various components.

Chart 4: Unamortized Costs



A breakdown of the major cost components of this Filing and the development of the billing factors are shown in Exhibit 1. The requested revenues from residential customers are recovered from all residential ratepayers, while the non-residential revenues are recovered from non-residential ratepayers that have not opted out of the programs.

Advisory Group

The DESC DSM Advisory Group (“Advisory Group”)⁵ continues to meet to discuss the status of each program, including preliminary participation statistics, Evaluation, Measurement & Verification (“EM&V”) plans and preliminary EM&V data. The Advisory Group met on April 25, 2019, and November 19, 2019. During the meetings, DESC provided updates on the status of the programs, the plans in place to meet PY10 forecast, as well as new program proposals for PY10 resulting from the Company’s latest Market Potential Study and recently approved by the Commission in Order No. 2019-880. The Advisory Group offered insight regarding how the proposals could impact participation from various sectors and how the Company utilized the Advisory Group discussions in advance of a program launch.

Evaluation, Measurement & Verification

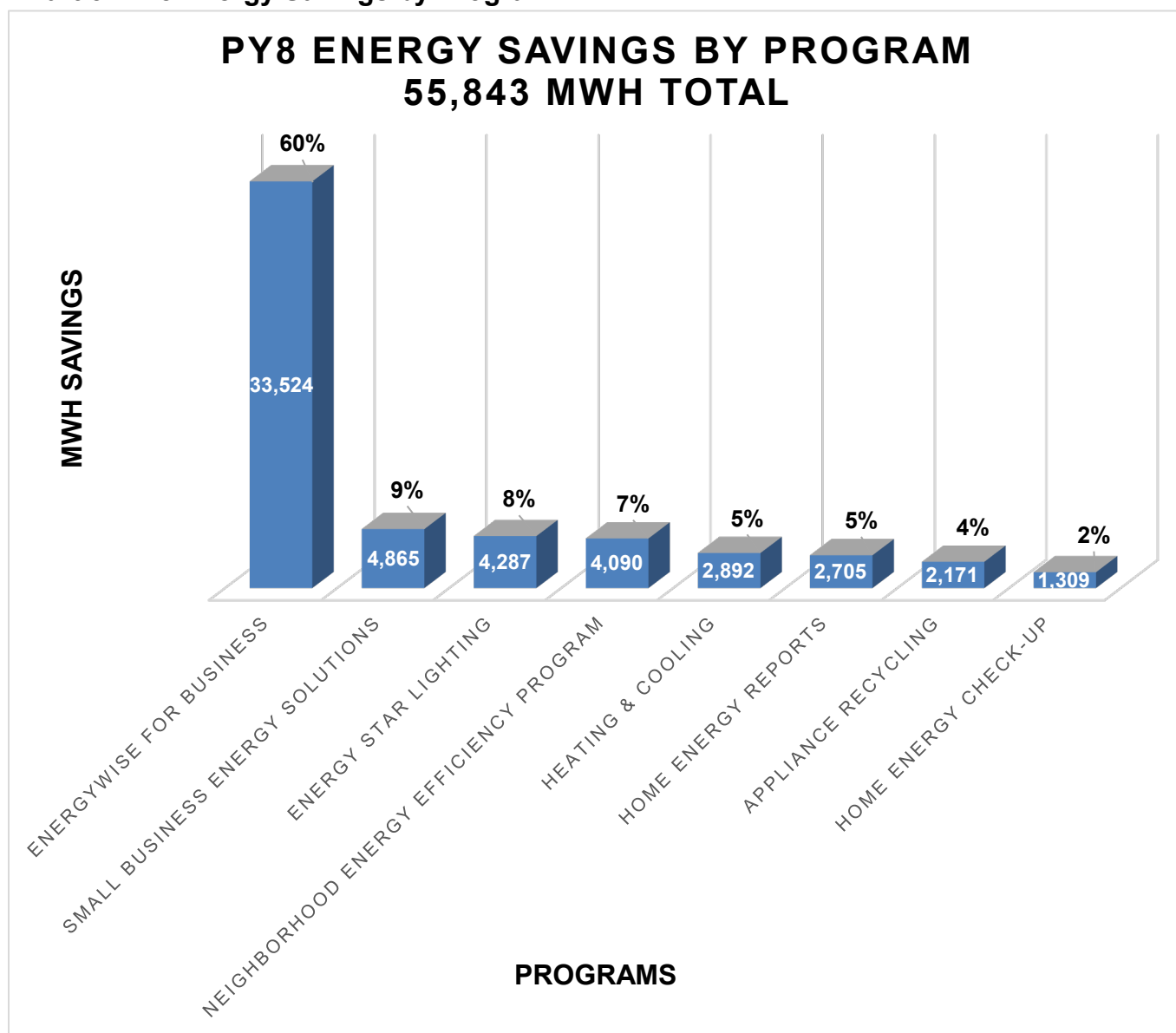
In May 2019, the Company filed its EM&V Report for PY8. The EM&V Report is the basis for the latest true-ups of NLR and the SSI included in the Filing. To date, the Company has utilized EM&V results to true-up NLR and the SSI for PY1-PY8. The EM&V Report for PY9 should be available in May 2020, providing data for true-ups of PY9 in the January 2021 filing.

According to the PY8 EM&V Report, the Company spent 102% of projected Program Costs and achieved 55,843 megawatt hours (“MWh”), or 78% of projected energy savings in PY8. Three (3) of the Company’s eight (8) ongoing programs achieved energy savings well in excess of forecast in PY8, while the EnergyWise for Your Business program provided 60% of the total energy savings. According to the Company, the 22% shortfall in energy savings in PY8 is primarily due to EM&V results that reduced the final energy savings in three (3) programs – Home Energy Reports, Home Energy Check-Up and ENERGY STAR Lighting. The Company is projecting strong energy savings growth of 71,887 MWh in PY9.

⁵ The Advisory Group was formed in accordance with Order No. 2010-472 and includes one representative each from the industrial sector, commercial sector, environmental sector, State Low Income Home Energy Assistance Program (LIHEAP) and ORS.

Chart 5 below illustrates the relative energy savings by program for PY8.

Chart 5: PY8 Energy Savings by Program



Estimates Used in the Filing

For PY9 and PY10, all program avoided energy amounts, avoided capacity amounts, NLR, and SSI are projections that were developed using the ICF International (“ICF”) DSM Planning Model. Thus, all the dollar amounts in the Filing, with the exception of the program costs in the Review Period and trued-up amounts in PY7, are estimates. These values and dollar amounts are to be trued-up in future filings based on EM&V results. ORS has reviewed the data and

assumptions used in the ICF DSM Planning Model and tested certain changes in the data and assumptions. ORS finds the ICF DSM Planning Model to have produced reasonable estimates for the DESC DSM programs.

Forecasted Retail Sales

The Company utilized its most recent short-term sales forecast to compute the DSM Rate Rider in this Filing. This forecast is the same forecast DESC used during its 2020 Annual Fuel Filing. As such, ORS is familiar with the methodology used to generate the sales forecast and finds it to be a reasonable approach to establish rates.

Energy and Peak Demand Savings

The Company projects that during the Forecast Period the DSM programs will reduce annual electric usage by 77,362 MWh. These are noteworthy savings and may provide DESC the ability to avoid or defer outright power purchases or the construction of a portion of required new generating facilities.

Opt-Outs

The Opt-Out Settlement Agreement allows all industrial customers to opt-out of the DSM programs (and not pay the DSM Rate Rider) by notifying the Company in writing that the customer does not wish to participate in the Company's programs and has or will implement alternative DSM programs at its own expense. Beginning with PY4, large commercial customers also have the ability to opt-out of the DSM programs in accordance with the terms of the Settlement Agreement approved in Commission Order No. 2013-826. At the end of PY9, 438 large commercial and industrial accounts had opted-out of DESC's DSM programs, representing 23% of the Company's retail electric load. In PY8, 434 large industrial and commercial accounts had opted-out, representing 25% of the Company's retail electric load.

DSM Rate Rider

Table 5 below compares previous and existing DSM rates to those currently requested by DESC:

Table 5: Previous Approved and Requested DSM Rates

DSM Rider Class	Approved 2018 Rate (¢/kWh)	Approved 2019 Rate (¢/kWh)	Requested 2020 Rate (¢/kWh)	Percentage Change in 2020 over 2019 Rate
Residential	0.221	0.184	0.220	+20%
Small General Service	0.259	0.274	0.402	+47%
Medium General Service	0.182	0.176	0.261	+48%
Large General Service	0.095	0.093	0.116	+25%

The Company's requested rate increase would cause the bill of an average residential customer using 1,000 kWh per month to increase by approximately \$0.36.

Conclusion and Recommendations

ORS is concerned that PY8 energy savings fell short of projected savings but is encouraged by the Company's future projections of energy savings in PY9 and PY10.

ORS anticipates DESC to file their "Avoided Cost Report" within 120 days of the final order in Docket No. 2019-184-E dated March 24, 2020, in compliance with Commission Order No. 2019-880. With that exception, ORS finds the updated DSM Rate Rider to be developed in accordance with the terms and conditions set forth in Commission Order Nos. 2010-472, 2013-826, and 2019-880.

DESC Revenue Request for Demand Side Management Programs
For the Recovery Period of May 2020 - April 2021

	<u>Residential</u>	<u>Small General Service</u>	<u>Medium General Service</u>	<u>Large General Service</u>	<u>Total</u>
<u>Program Costs:</u>					
Actual Balance of Program Costs as of November 30, 2019	\$35,176,469	\$18,736,109	\$9,148,056	\$9,005,091	\$72,065,725
One Year Amortization (over three years)	\$11,725,490	\$6,245,370	\$3,049,352	\$3,001,697	\$24,021,909
<u>Net Lost Revenues for December 1, 2017 through November 30, 2020</u>					
Cumulative Energy Savings (kWh)	78,634,000	76,689,665	29,145,537	20,474,798	204,944,000
Net Lost Revenue Factors (\$/kWh)	\$0.09488	\$0.08633	\$0.06257	\$0.03722	
Estimated Net Lost Revenues	\$7,460,794	\$6,620,619	\$1,823,636	\$762,072	\$16,667,121
True-up for PY8	(\$1,804,464)	\$840,894	(\$108,889)	(\$267,783)	(\$1,340,242)
Net Lost Revenues for Rate Calculation	\$5,656,330	\$7,461,513	\$1,714,747	\$494,289	\$15,326,879
<u>Shared Savings Incentive:</u>					
Cumulative Shared Savings Amortization through PY10	\$550,720	\$686,743	\$263,144	\$177,202	\$1,677,809
True-up for PY8	(\$167,278)	\$9,493	(\$91,096)	(\$131,516)	(\$380,397)
Shared Savings Amortization for Rate Calculation	\$383,442	\$696,236	\$172,048	\$45,686	\$1,297,412
<u>DSM Rate Rider</u>					
Amortization of Program Costs	\$11,725,490	\$6,245,370	\$3,049,352	\$3,001,697	\$24,021,909
Net Lost Revenues	\$5,656,330	\$7,461,513	\$1,714,747	\$494,289	\$15,326,879
Amortization of Shared Savings Incentive	\$383,442	\$696,236	\$172,048	\$45,686	\$1,297,412
Total Requested Recovery	\$17,765,262	\$14,403,119	\$4,936,147	\$3,541,672	\$40,646,200
Projected Sales (GWh)	8,075.1	3,582.3	1,891.9	3,044.8	
DSM Rate Rider (¢/kWh)	0.220	0.402	0.261	0.116	